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TAGS: [EAID](#) [ECON](#) [EFIN](#) [EINV](#) [KTFN](#) [IZ](#) [KU](#)
SUBJECT: DEPSEC KIMMITT DISCUSSES IRAQ COMPACT, TERROR
FINANCE, BANK OVERSIGHT WITH KUWAIT CENTRAL BANK GOVERNOR

REF: KUWAIT 4291

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

11. (C) SUMMARY: On 1 November, Treasury Deputy Secretary Kimmitt met with the Governor of the Central Bank of Kuwait, Shaykh Salem Abdullah Al-Sabah, to report on the results of the previous day's Iraq Compact Preparatory Group Meeting (septel) and discuss the importance of a strong monitoring and information sharing regime to combat money laundering and terror finance. On Iraq, Kimmitt emphasized the importance of debt relief and technical assistance and pointed to a number of areas in which the GOI had demonstrated a real commitment to economic reform. On bank and charity oversight, he emphasized that banks, central banks, and government agencies must cooperate to protect the international banking system from being exploited for illegal activities, especially terrorism and proliferation. The Governor provided very little comment other than to say that he agreed with the importance of reform and debt reduction in Iraq and supported international cooperation to monitor banks and charities. He added that, to his knowledge, Kuwait had experienced no incidents of terror finance activity. END SUMMARY

Iraq Compact Nearly Finalized

12. (SBU) On 1 November, the day after the Kuwait-hosted Preparatory Group Meeting of the International Compact with Iraq (ICI), Treasury Deputy Secretary Kimmitt met with Shaykh Salem Abdullah Al-Sabah, Governor of the Central Bank of Kuwait, to report on the status of the ICI. Kimmitt said that the progress made in the Preparatory Group meeting should lead to finalization of the Compact by late November or early December. He explained that the Compact was designed to financially assist Iraq in the near term with the expectation that the country should be economically self-sufficient within 4-5 years. He added that the ICI was focused on providing financial assistance, debt relief, and technical assistance in return for reform commitments on the part of the Government of Iraq.

GOI Commitment to Reforms is Critical

13. (SBU) Shaykh Salem responded that it was critical for the GOI to institute reforms. Kimmitt emphasized that the GOI had already demonstrated its commitment reform by meeting the terms of the IMF Standby Agreement and taking important steps to improve auditing, reduce subsidies, tackle corruption, and increase transparency. He added that the GOI had stabilized its currency, built up substantial foreign reserves, and nearly restored oil production to pre-war levels. Kimmitt noted that Iraq was still experiencing problems with inflation and capital investment, and said the

U.S. Treasury Department was increasing the presence of its technical assistance experts in Iraq to help the GOI enhance its capacity for financial management. He noted that regional organizations such as the Kuwait Fund for Arab Economic Development and the Arab Fund for Economic and Social Development were also contributing their expertise.

Debt Burden and Inflation Need to be Addressed

¶4. (C/NF) On debt relief, Kimmitt noted that the USG had forgiven 100% of Iraqi Debt, and that in accordance with Paris Club commitments, many of Iraq's other major creditors were forgiving substantial amounts of Iraqi debt. The DepSec explained that mere flexibility by creditors on Iraqi debt servicing would be insufficient, as Iraq needed actual debt forgiveness in order to increase investor confidence and attract more private investment. The Governor acknowledged that relieving Iraq's debt burden would be critical to the development of its economy because sovereign debt is an obstacle to foreign investment.

¶5. (C/NF) On inflation, Kimmitt said that monetary tools alone would not be enough to solve the problem, though appreciation of the Iraqi dinar was called for. Iraq needs to exercise greater fiscal discipline, improve its banking system, and curb the use of dollars in the economy. He suggested that the Iraqi Central Bank could benefit from the experience of Kuwait Central Bank in rebuilding the Kuwaiti economy in the 1990s. Shaykh Salem did not respond to this.

Need to Strengthen Oversight of Banks and Charities

KUWAIT 00004310 002 OF 002

¶6. (C/NF) Deputy Secretary Kimmitt also stressed the importance of effective oversight of banks and charities to combat money laundering and terror finance. He noted the importance of information sharing and cooperation between governments and banks to ensure that the international banking system is not exploited for illegal activities. He also emphasized the distinction between political sanctions and legal-regulatory enforcement. He said in this latter regard that Treasury takes actions against illegal activities, not against countries. Furthermore, he said the Treasury only instructs U.S.-based banks and is careful to avoid extra-territorial action. For these measures to be successful, Kimmitt said that multi-lateral cooperation was critical between banks and governments. He added that protecting the integrity of the international banking system was in the common interest of all countries. Shaykh Salem agreed with the importance of effective oversight, and said a multi-agency national committee addressed this issue in Kuwait. He said this group is hoping for parliamentary approval of strengthened authority later this year. He also mentioned Kuwait's participation in regional dialogues in this area through organizations such as MENAFATF, but said that he was unaware of any terror financing activity in Kuwait.

¶7. (C/NF) In closing, Kimmitt summarized U.S. economic issues, noting that many economists were still bullish about the U.S. economy despite weaker than anticipated 3rd quarter growth. He noted that the U.S. budget deficit had fallen to below 2% of GDP thanks to strong revenue growth and greater fiscal discipline. He added that greater demand growth in Europe and Asia was needed to reduce the U.S. trade deficit and that Secretary Paulson would be in China next month to talk about valuation of the Chinese currency among other topics in a Strategic Economic Dialogue. Regarding further structural reform in the U.S., Kimmitt said the USG would be proactive with regard to addressing long-term structural economic challenges.

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LeBaron